Continuing high levels of uncertainty, potentially game-changing advances in technology, the adoption of nontraditional business models, and other external forces, such as changing demographics and geopolitical pressures, all are transforming the business environment. As directors look ahead to help their companies identify and navigate disruptive forces, innovation will be a critical capability. During a recent webcast as part of the NACD’s Directorship 2020 initiative, panelists discussed questions that directors ought to ask and trends to watch as they consider whether the right level of information and discussion about innovation is happening in the boardroom.

“Remaining constant is not even remotely an option,” said moderator Susan Angele, senior advisor with KPMG’s Board Leadership Center. “Companies that innovate successfully have a strong competitive advantage. You can become a disruptor, you can respond to disruption, you can do a little bit of both, or you can be left behind.”

According to KPMG’s latest global CEO Survey, while innovation is viewed as a top strategic priority, only 25 percent of CEOs polled said innovation is embedded in everything they do.

**Status quo risk**

Companies that are strong leaders in their core business are often the ones that are left behind. “The world has changed,” said Adam Hartung, managing partner with consultancy Spark Partners. “Changes in the market often make that unique element obsolete. If you only focus on one thing and the market changes, you can find yourself in big trouble.”

Focusing your strategy on a strong, successful core business while remaining unaware of key trends and shifts happening in the marketplace exposes companies to status quo risk, said Hartung, giving the example of encyclopedia companies, which continued to focus on producing books even as the market shifted toward accessing information online. “Status quo risk put them out of business,” he said. Understanding status quo risk and making the decision to change while the business is still successful is difficult but can be rewarding. “If you are aware of and understand key trends and see market shifts, it can be very valuable,” he noted.

Sonya Sepahban, a board member at Genomenon and Cooper Standard, referenced current trends—the sharing economy, crowdsourcing, Internet of Things, mobile, virtual reality and artificial intelligence—and commented that they have potential implications for all companies, no matter how traditional their existing industry may be.

**Innovation on the board agenda**

To allow more time to discuss innovation, boards should spend less time talking about routine execution of existing plans. “Rather than talking about whether the company is doing things right, the board’s time should be spent discussing whether the company is doing the right things,” said Hartung. “Talking about how the company runs on a regular basis is like driving the bus looking in the rearview mirror,” he said. “Assuming the current business is working well, boards should focus more on whether the company is putting its resources, management talent, and money into the things it needs to do to be successful in the future.” That means leaving time on the agenda to talk about trends and their implications for the business, and asking “will what we’ve done in the past produce the same returns in the next year and two years or three years out?” said Hartung.

Equally as important is ensuring that the company is tracking appropriate metrics around innovation. A poll taken during the webcast showed that while many directors say their boards track metrics such as revenue from new products, resources allocated to new products...
Questions directors should ask

Sepahban wrapped up the discussion with five questions that all boards should ask management with respect to innovation:

1. What market are we in?
2. Who are our competitors today? Tomorrow?
3. How does management enable innovation/remove barriers?
4. What are the board’s expectations with respect to speed to market and risk tolerance, and how do we measure them?
5. What is the company’s approach to engaging startups?

About The KPMG Board Leadership Center

The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives—including KPMG’s Audit Committee Institute and Private Markets Group, the WomenCorporateDirectors Foundation, and more—the Center engages with directors and business leaders to help articulate their challenges and promote continuous improvement. Drawing on insights from KPMG professionals and governance experts worldwide, the Center delivers practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens. Learn more at kpmg.com/blc.